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SUBJECT: MALAWI: APPROACHING MCA ELIGIBILITY DECISION POINT

¶11. (SBU) Summary: Malawi is making strong progress on a number of fronts as the country approaches this year's MCA eligibility decision point, while continuing to struggle with some intractable political problems. Rapid economic growth has continued over the past year, while inflation has fallen sharply to around seven percent. There is also a consensus - even among many opposition politicians - that the GOM's economic policies and spending plans are pro-poor, pro-growth, well designed and working. The GOM is cooperating effectively with donors to improve the reach and quality of health and education services, and to improve economic infrastructure. On the political front, President Mutharika continues to confront determined foes in the opposition who appear bent on 1) impeaching the President if they can; 2) protecting themselves from corruption investigations; and 3) defeating the President in the 2009 elections. This conflict largely explains Malawi's disappointing record this year in gaining Parliamentary approval for key appointees in the anti-corruption institutions. On the whole, the U.S. Mission believes that Malawi is ready for compact negotiations and could put MCA funds to productive use toward the GOM's sound "Malawi Growth and Development Strategy." President Mutharika would likely push to negotiate and sign a compact prior to 2009 national elections, but the GOM might lack the planning/negotiating capacity to complete the talks on this ambitious timetable. End Summary.

¶12. (U) Malawi's Millennium Challenge Account (MCA) Threshold Program is approaching its conclusion in mid-2008. The Millennium Challenge Corporation (MCC) board is expected to evaluate in late 2007 the country's eligibility for negotiations on an MCA compact. This message provides the U.S. Mission's perspective on developments and trends that may be relevant to consideration of Malawi's eligibility for a compact.

High Growth, Low Inflation

¶13. (SBU) During 2007, the Malawian economy is projected to grow at 6 percent, following on 8.5 percent growth in 2006. Stronger agricultural production, particularly in maize, the staple crop, has meant that not only has Malawi achieved food self-sufficiency in this period, but has also had surplus maize to supply to the troubled Zimbabwean market. This state of affairs constitutes a major shift from Malawi's prior need for significant emergency food assistance. Some of Malawi's recent success can be chalked up to favorable weather, but improvements in the macroeconomic framework and concerted efforts to improve farm yields also played a part. Much remains to be done to reduce Malawi's vulnerability to drought permanently, of course, and President Mutharika recently underscored his commitment to increase land under irrigation as well as further diversify Malawi's economic base.

¶14. (SBU) At the same time Malawi's pace of economic growth has

increased, inflation has been brought under control. Current annual inflation was running at 7.5 percent in mid-2007 (as compared to about 15% in mid-2006) and appears to be headed downward toward 5 percent. During the GOM's presentation of its budget to Parliament, a number of senior opposition figures, including former ministers of finance, offered grudging praise for current Finance Minister Goodall Gondwe's management of the economy, and for the soundness of the budget itself. In spite of the political wrangling and confrontation that surrounded Parliament's consideration of the budget, the opposition asked for (and got) only minor changes to the budget itself. This relative lack of controversy reflects the large measure of agreement on economic policy among country's major forces, as well as general recognition that things are going well.

Increasing Investments in People

¶5. (U) While Malawi is one of the world's poorest countries, the GOM has registered some notable successes in improving the quality of life of rural and urban Malawians. Examples from the health and education sectors demonstrate this positive trend.

Health: An estimated fourteen percent HIV/AIDS prevalence rate manifests itself in a life expectancy rate of 37 years, with 80,000 victims dying annually and a roughly equivalent number of new infections. There are also over six million cases of malaria per year, accounting for forty percent of all outpatient visits to GOM health centers. The GOM has responded by carefully coordinating targeted interventions with the donor community that are starting to show results. For example, child (under five) mortality has dropped 29%, and Malawi is gaining global recognition for its rapid roll-out of HIV/AIDS testing and treatment campaigns (over 110,000 people started on ARVs in a three year period). The HIV prevalence rate for 15-24 year old pregnant women has reduced from 24.1% in 1998 to

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fourteen percent in 2006.

Education: Malawi's adult literacy rate is 61%. Over 3.2 million children are enrolled in primary school, but met with insufficient classrooms, teachers or learning materials, many do not finish the primary cycle. Girls' participation has improved in primary school, but more boys complete primary and move on to secondary school than girls. The GOM is responding by building more schools, reforming its curriculum and providing more and better trained teachers, moving towards a Sector-Wide Approach. Examples of progress are: the number of qualified secondary school teachers has increased from 1,250 in 1994 to 2,411 in 2006 and estimated pupil primary completion rates are on the rise, from 46% in 2004 to 53% in 2006.

Corruption Waning Despite Stalled Appointments

¶6. (SBU) One of the reasons President Mutharika cited in breaking with the previous ruling party (the United Democratic Front) and his predecessor, Bakili Muluzi, was Mutharika's desire to end the chronic corruption that he said had characterized the Muluzi government. There is a widespread perception among the international community that after a splashy beginning, the current GOM's fight against corruption has since stalled. It is certainly true that the GOM has encountered serious obstacles in confirming its nominees for key positions such as the Director of the Financial Intelligence Unit (FIU), Auditor General, the Chief Justice of the Supreme Court and the Head of the Anti-Corruption Bureau (ACB). Regarding the FIU, however, the GOM has demonstrated its commitment to setting up this independent body despite the absence of a Director. There are now four staff members working for the FIU in a newly provided secure space, and the recently passed budget provides for basic operating expenses.

¶7. (SBU) The GOM's record in prosecuting past corruption in the courts has not been impressive, but there is another side to this story. First, the primary reason for stalled anti-corruption appointments is not lack of commitment or focus on the part of the

GOM, but rather determined resistance from opposition parties whose leaders are personally threatened by the prospect of effective prosecution of corruption. Opposition parties have used their superior numbers and Parliamentary procedures to block qualified and reasonable nominees.

¶8. (SBU) While efforts to punish previous corruption have been slow, the Mission has heard consistent feedback from non-partisan business leaders in Malawi and international bank representatives that official corruption has declined noticeably under the Mutharika administration, while transparency has increased. As an example, when questions were raised about a tourism project tender overseen by Minister of Information (and formerly of Tourism) Patricia Kaliati, a prominent member of the GOM, the tender was put out immediately for re-bid, the Minister was divested of the tourism portfolio, and President Mutharika announced that an investigation would commence against the Minister. Progress has not been reflected in recent surveys by Transparency International, but nonetheless there appears to be a consensus among those who regularly interact with GOM officials in order to do business that things are better.

Political Wrangling Likely to Continue

¶9. (SBU) President Mutharika has been widely criticized by both international and domestic political observers - with some justification -- for his "authoritarian" tactics, such as dismissing Parliament as soon as his budget was approved, and before the Speaker of Parliament could implement Section 65 of the Constitution. This provision could require bi-elections to replace 30-40 Members of Parliament who crossed the aisle to join the Democratic People's Party (DPP), the President's new political organization. Mutharika's tough tactics are, from his standpoint, the only way for him to head off further attempts to impeach him, and try to govern his way into majority status through national elections in 2009. Opposition leaders, including former President Muluzi and MCP chief John Tembo, are equally committed to preventing Mutharika from governing successfully, fearing that time will be on the President's side as he consolidates power. This deep-seated conflict - fueled by Muluzi's perceptions of betrayal by his anointed successor and Tembo's sense that it was he who really won the 2004 elections - probably cannot be resolved through negotiations and concessions. Though disappointing at some levels, the President's stubbornly pursued and often high-handed tactics have worked, providing more or less coherent governance in the short term. And with no grassroots organization or prior political base,

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Mutharika's only real chance to remain in power beyond 2009 is through clearly demonstrating to voters that their lives are improving under his rule.

Judicial Institutions Display Independence

¶10. (SBU) Despite GOM frustrations over the protracted budget impasse, and political disagreements over the interpretation of Section 65 (which has the potential to decrease the number of DPP MPs in Parliament), the judiciary has operated freely and independently, with both sides of the political divide respecting (but not always agreeing with) judicial decisions that have political implications. The durability of the judiciary during these politically turbulent times demonstrates a fundamental respect for the rule of law across the political spectrum.

Malawi Prepared to Put MCC Funds to Good Use

¶11. (SBU) Malawi has by no means overcome the main challenges it faces in consolidating democracy or guaranteeing long-term food security, but the country is making real progress in attacking poverty, improving social services and strengthening the rule of law.

¶12. (SBU) The GOM's "Malawi Growth and Development Strategy" (MGDS) emphasizes transforming Malawi's economy from dependence on imports for local consumption into a more diverse, manufacturing and export-led growth economy. The MGDS focuses on achieving strong and sustainable economic growth, building a healthy and educated human resource base, and protecting and empowering the most vulnerable. While the GOM has made substantial progress in mobilizing resources to fund the MGDS, MCC Compact funds could be put to good use by building on the solid MGDS framework.

¶13. (SBU) Implementation of the MCC Threshold Country Plan has been largely successful, with a number of its goals already met: the passage of anti-money laundering legislation; the re-establishment of an independent Media Council; the regular provision of funds for the operation of the National Assembly; and capacity building across the GOM through training programs designed to combat corruption. There is also notable progress toward achieving other results (positive movement in Fitch ratings from CCC+ to B- and the establishment of FIU offices).

¶14. (SBU) Political battles will go on, but national leaders would likely be able to muster a rough consensus on how to use additional MCA funds effectively to increase food security, improve the country's competitiveness and address deficits in essential public services. President Mutharika in particular would have a strong incentive to push potential compact negotiations to a successful conclusion prior to elections in 2009, though limited negotiating capacity might hamper rapid agreement on a compact.